HSBC Securities
Member HSBC Group
MENA Research

1 July 1999

Healthcare and industrial holdings

Egypt

Lakah Group

A care package

IPO

- **Eight companies offering a comprehensive play on MENA healthcare development alongside strong industrial investments**
- **Capital increase to finance entry into medical disposables market, regional expansion into MENA, and a leasing company**
- **43.7% NPAT CAGR driven by 54.9% CAGR in healthcare NPAT**

Current Position

The Lakah Group consists of eight subsidiaries equally divided into providing the most comprehensive healthcare development services in the Middle East, and targeting under-serviced industrial markets. The group is one of the largest private sector companies in Egypt with a paid-in capital of LE1.15bn (US$333m) and 1998 sales of LE674m (US$195m).

Change

Lakah is offering approximately US$100m in new capital alongside some existing shares with local and GDR listing.

Strategy

The group plans to use the capital to expand its healthcare operations in the Middle East, enter the medical disposables market, establish a leasing company for equipment sales, and begin complete hospital management.

Risks

The group's profitability remains largely dependent on Arab Steel and Medequip. A scrap shortage or worsening regional political relations could negatively impact the group's bottom line.

Valuation

Our DCF, sum of the parts, and comparable valuations suggest a value range of LE1.3–1.8bn (before the capital increase), LE11.5–15.5 per share.

Key Data	
EGP/US$	3.45
Value range (before the money, LEbn)	1.3–1.8
No. shares (post IPO,m)	149.88
Max free float (post-IPO)	47%
NAV 1998 (LEbn)	1.19
Expected post offering structure	**(%)**
Existing shareholders	53.33
Maximum free float	46.67
NPAT CAGR 1998–2001	
43.7%	

Other growth figures	**(%)**
Sales CAGR 1998–2001	30.7
EPS CAGR 1998–2001	31.5
Analysts	
+44 171 336+	Ext
Rony Argi	9238
Taher G. Gargour	9240

Year on year key data (note: figures show the effect of capital increase from IPO, IIC excluded from our consolidated projections)

Year to Dec	Turnover (LEm)	Turnover growth (%)	EBIT (LEm)	EBIT margin (%)	NPAT (LEm)	NPAT growth (%)	Diluted EPS (LE)	EPS Growth (%)	DPS (LE)	Pay-out ratio (%)	BVPS (LE)
1998	674.36		181.86	27.0	93.23		0.81		0.00	0.0	10.38
1999f	1,001.14	48.5	199.27	19.9	125.92	35.1	0.95	17.3	0.48	50.0	10.75
2000f	1,243.36	24.2	255.97	20.6	214.94	70.7	1.43	50.5	0.72	50.0	11.53
2001f	1,506.28	21.1	331.51	22.0	276.80	28.8	1.85	29.3	0.92	50.0	13.16

HSBC Investment Bank plc has been appointed to act as a syndicate member in connection with the proposed offering of Global Depositary Shares in Lakah Group S.A.E. ("the Company").

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(6/99)

Contents

Strategic summary

SWOT analysis

Strengths	Weaknesses
• Leader in medical equipment and turnkey projects in Egypt, w/ contracts across the MENA region	• Medical revenues partially sourced from volatile project-driven income streams
• Highest domestic rating by Fitch IBCA (AA-)	• Limited fx risk mainly in steel business
• Exceptionally high vertical integration, 30 years of expertise, quality service and critical mass	• Dependence on a few business (Arab Steel and Medequip are 60% of bottom line in 1998)
• Sole MENA provider of comprehensive, vertically-integrated healthcare development services	• Limited synergies between industrial and healthcare holdings
Opportunities	**Threats**
• Healthcare reform in Egypt	• Shortage of scrap may impact billet margins
• Expansion into other MENA markets and new related ventures (Disposable medical equipment, leasing)	• Worsening relations between Egypt and MENA countries may impact regional expansion
• Expansion into comprehensive hospital management in Egypt	• Dependence on limited number of medical equipment suppliers and manufacturers

Key assumptions

For each key driver...	...we are assuming...	...but the risk is
Medequip	• 32.1% sales CAGR (1998–01) • 15.6% NPAT margin 1999	Worsening political situation could negatively impact regional growth in equipment sales and medical construction
TMSE	• 16.2% sales & credit CAGR (1998–01) • 16.4% NPAT margin 1999	Worsening political situation could negatively impact regional growth in equipment sales (esp. Turkey, Algeria)
Quest	• 29.5% sales CAGR (1998–01) • 17.2% NPAT margin 1999	Worsening political situation could negatively impact regional growth in medical construction
MCMC	• 114.7% sales CAGR (1998–01) • 35.5% NPAT margin 1999	Worsening political situation could negatively impact management contracts and slow Speciality Hospital sales
Arab Steel	• 17.1% sales CAGR (1998–01) • 14.3% NPAT margin 1999	Rising scrap prices could squeeze profit margins on billets or force price increases and squeeze demand
Amitrade	• 21.0% sales CAGR (1998–01) • 4.8% NPAT margin 1999	Rising scrap prices could slow demand and trade negatively impacting Amitrade's top and bottom line
ICC	• 29.5% sales CAGR (1999–01) • 6.9% NPAT margin 1999	Delays in completion of fluorescent bulb line could slow sales growth

Lakah Group—building on care

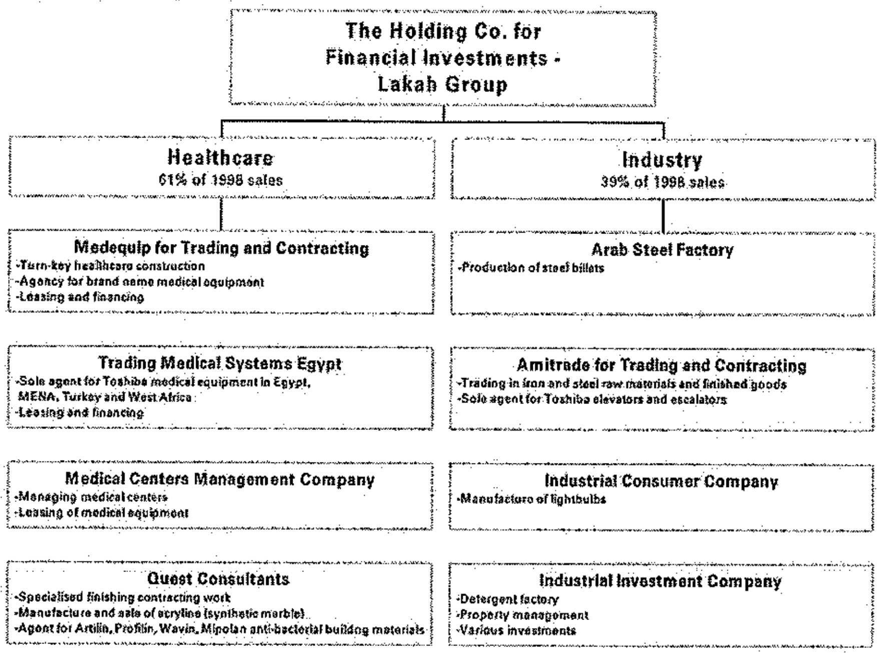
- Eight companies divided between healthcare and industry
- A unique, vertically-integrated play on the healthcare boom in MENA
- Growth set to skyrocket with a 31% sales CAGR, and 44% NPAT CAGR

Eight companies in Lakah Group

The Lakah Group is comprised of eight subsidiaries: four medical companies devoted to complete coverage of all facets of the high-growth healthcare market, and four industrial companies with strong asset bases and recurrent income streams.

Eight companies evenly divided between healthcare and industry

The Lakah Group structure



Source: Lakah Group, HSBC

A unique play on healthcare

The Lakah Group is the only company in the whole Middle East offering such a comprehensive, vertically integrated healthcare development service. The Lakah Group healthcare companies offer a vertically integrated service that covers all facets of the developing healthcare services:

Focusing on healthcare:

From foundation to operation

- Building facilities, from basic structures or finishing to turnkey hospitals
- Manufacturing and supplying unique anti-bacterial building materials
- Supplying, financing, servicing, and operating high-tech equipment
- Operation and management of centres, hospitals, or high tech wings
- Building, selling and, in the future, managing private sector hospitals

Lakah Group—building on care

Diversified industrial base for recurrent income

Supporting their healthcare business (which tends to have project-driven revenues due to its focus on contracting and medical equipment contracts), are the Lakah Group's diversified industrial holdings. The four industrial companies provide a strong stream of recurrent income, and unlike the medical companies, they also offer a strong asset base.

Industrial income balances project-driven healthcare revenues

The industrial holdings, focused on steel billet production and trading, and light bulb manufacturing, target under-developed industries where over 30% of local consumption relies on imports and local competition is fragmented or dominated by inefficient public sector companies.

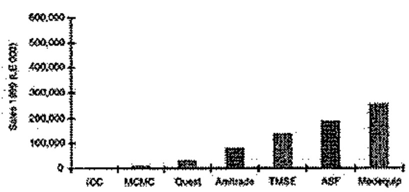
Investments in under-developed markets with little competition

A recipe for booming sales and profits growth

The combination of solid industrial investments and high growth medical companies has a staggering growth rate with a 30.7% sales CAGR (1998-2001). The medical companies remain the driving force of Lakah Group growth with 31.2% sales CAGR compared with 24.2% for the industrial stocks. (Note: industrials excludes IIC, insufficient data exists for modelling.)

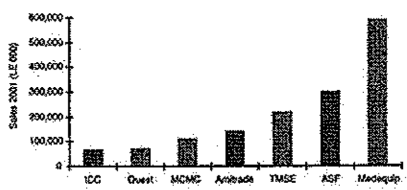
30.7% sales CAGR driven by healthcare

Lakah unconsolidated sales—1998



Source: Lakah Group HSBC

Lakah unconsolidated sales—2001

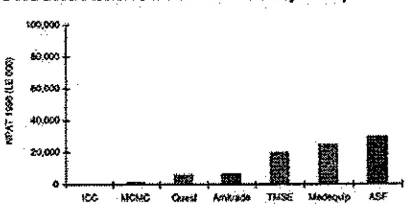


Source: Lakah Group, HSBC

The growth in net profits is even more pronounced (43.7% NPAT CAGR) as the healthcare companies (particularly MCMC and Medequip) realise stunning growth (54.9% NPAT CAGR) from added leasing revenues and expansion into new fields.

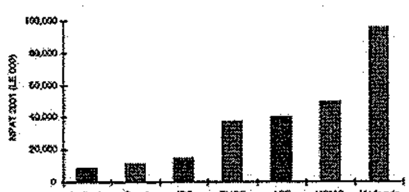
Healthcare companies 54.9% NPAT CAGR

Unconsolidated NPAT 1998 (LEm)



Source: Lakah Group HSBC

Unconsolidated NPAT 2001 (LEm)



Source: Lakah Group, HSBC

As a result of its rapid growth, Lakah Group's healthcare investments are expected to go from 59% of NPAT in 1998 (excluding IIC) to 75.5% in 2001.

Healthcare 75.5% of NPAT by 2001

The offering

- **A capital increase of circa US$100m...**
- **...combined with sale of existing shares**

The company's structure and offering

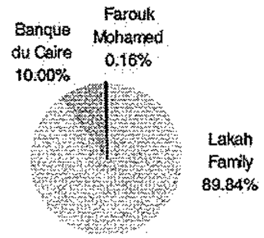
Restructured in 1998

The Holding Company for Financial Investments—Lakah Group SAE—was incorporated in November 1998 out of Lakah family holdings in healthcare, and industry. With a paid-in capital of LE1.15bn, it is one of the largest private sector companies in Egypt.

89.84% Lakah family owned

Prior to the offering, Lakah's capital was distributed over 114.99m shares (LE10 par value) with the Lakah family owning 89.84% of the company.

Pre-offering structure



Source: Lakah Group, HSBC

Post offering structure

Source: Lakah Group, HSBC

US$100m in new capital

The Group plans a capital increase of 35m new shares alongside the sale of some of existing shares. The capital increase is expected to raise approximately LE350m (circa US$100m).

Use of the proceeds

Most of increase going to related new ventures and geographic expansion

The company has identified approximately US$20m in capital expenditures for its existing companies. The offering will raise cUS$100m of new capital, the balance of which will be used for new ventures including:

- Entry into healthcare non-durables (syringes, IV bags, etc)
- The establishment of a separate leasing and financing company
- Expansion of existing business into the MENA markets

Valuation

- **Sum of the parts DCF valuation range of LE1.3–1.8bn**
- **Egyptian market and HSBC comparables suggest LE1.4–1.8bn**

Discounted cash flow (DCF) valuation

Approach

A sum of the parts DCF valuation

Our preferred valuation approach is the DCF. We have modelled the free cash flows for each company (with the exception of IIC) over the next five years. These have been aggregated and discounted at 13.5%, reflecting the risk of the holding company, its capital structure and a bottom-up effective tax rate. The cost of equity assumes a risk free rate of 10% and a market premium of 7%. Lakah Group beta has been modelled at 1, reflecting its diversification.

WACC and perpetual growth rate assumptions (central scenario)

Components	Cost	After tax cost	Weight(1)	Weighted cost
Equity	17.0%	17.0%	60%	10.2%
Debt	11.0%	8.3%	40%	3.3%
WACC				13.5%
Perpetual growth	4.5%	Significantly below Egypt's sustainable nominal growth of 9-10%		

Source: HSBC Securities. Note(1): taking into account Gross debt as excess cash is assumed reinvested/distributed.

Valuation range before the capital increase

A DCF value range of LE1.3–1.8bn

The table below summarises the value of the discounted cash flows of the individual companies (net of their specific debt) from which the holding company debt as well as discounted central costs have been deducted.

Sum of the parts DCF valuation

Company	Conservative Scenario	Central Scenario	Aggressive scenario	% Holding
WACC (%)	14.0%	13.5%	13.0%	
Perpetual Growth (%)	4.0%	4.5%	6.0%	
Medequip	372,867	425,858	491,974	97.80%
TMSE	134,271	150,296	170,210	97.60%
Quest	102,668	113,396	126,752	97.46%
MCMC	158,470	160,893	168,219	97.98%
Arab Steel	376,311	438,156	515,071	97.92%
Amitrade	75,482	85,206	97,324	97.02%
ICC	135,228	149,908	168,191	97.95%
IIC (1)	194,737	243,421	292,105	97.98%
Total DCF - Company specific debt	1,548,034	1,767,135	2,027,845	
Total Attributable to Lakah Group	1,514,057	1,728,386	1,983,397	
Consolidated Cash (04/99)	231,354	231,354	231,354	
Additional holding company's debt (04/99)	400,000	400,000	400,000	
Discounted central costs	71,429	74,074	76,923	
Cash from disposal of assets after 04/99	43,500	43,500	43,500	
Equity value	1,317,483	1,529,166	1,781,328	
Number of shares (000)	114,988	114,988	114,988	
Equity value / share (LE)	11.5	13.3	15.5	
Equity value / share (US$)	3.4	3.9	4.5	

Source: HSBC Securities. Note (1): IIC valued according to its NAV

Comparables valuation

The table below provides a range of comparable valuations, including the Egyptian IFC index and a set of blue chip companies tracked by HSBC (including ABC, Eastern Company, EFIC, EIPICO). For the sake of the valuation we have used the Lakah Group's (post capital increase) consolidated earnings in the year 2000.

Valuation

Comparable valuation range of LE1.4–1.8bn

Comparable valuations—2000

Comparable	PER 2000	Net income (LEm)	Implied valuation (LEm)
Egyptian IFC	6.6	215	1,419
HSBC Blue chips	8.2	215	1,763

Source: HSBC Securities

Not for distribution in the USA, Canada or Japan

Medical group

- **The only company in the region offering an integrated healthcare development business model: construction, equipment, financing and management of medical centres**
- **Clear leadership in most business segments**
- **Success results from vertical integration, product quality, high level of service coupled with high entry barriers**
- **Future growth fuelled by healthcare reform in Egypt, diversification of domestic product offering and expansion to other MENA markets**

An integrated business model, unique in MENA

The medical group is made up of four companies offering complementary products and services. The Lakah Group is the only company in region capable of offering a fully integrated service and product package in healthcare development.

The only group in the entire Middle East with full in-house expertise in the medical field

Lakah offers a wide in-house expertise...

- Construction of hospitals and medical centres
- Sale of medical equipment for most hospital specialities
- Medical turnkey projects (construction, equipment, finishing)
- Financing and leasing of most medical equipment
- Management of specialised medical centres

...progressively developed over the last 30 years

Lakah's core activity, the sale of medical equipment, started in 1960. Since then the group has established an impressive list of licences for international manufacturers, handled by Medequip and TMSE (Toshiba only). The granting of leases to finance acquisitions of medical equipment was launched by the group to address demand from the private sector.

The medical group started by the sale of medical equipment in the 60s...

Key healthcare needs and Lakah's offer (arrows indicate expansion)

Lakah offer / Market needs	Lakah's medical group			
	Medequip	TMSE	Quest	MCMC
Construction (incl. Turnkey) • Civil works, Electro-mechanical • Finishing				
Medical equipment • Sale • Service	Core business			
Leasing and Financing • Leasing of medical equipment				
Facility management of medical centers				

Source: Lakah Group, HSBC

Medical group

In order to address customers needs, the Lakah Group progressively developed expertise in small scale pre-installations for its equipment. By the beginning of the 90s, the group was able to offer a dedicated in-house design office, a finishing department (20% of contracts are now sub-contracts to Quest) and an electro-mechanical engineering department. Medequip was then able to execute turnkey projects (with or without construction, finishing, medical equipment, or services) for individual departments in hospitals and won its first major turnkey project in 1989.

...and progressively developed its construction capabilities

The natural next step for the group was the establishment of Medical Centre Management Company (MCMC) in 1995. The company's main objective is to build, operate and maintain medical centres in Egypt in return for a large portion of the revenues. The first key project was signed with the Cairo Health Care Organisation to install and operate the computerised Tomography (CT) centres in three of its hospitals.

Since 1995, the Group has established a company for the management of medical facilities

Clear leadership in most business segments

Distributorships of medical equipment

Lakah Group represents 11 international manufacturers in Egypt...

Through Medequip and TMSE, Lakah Group is the largest supplier of medical equipment in Egypt. With the exception of hospital disposables (eg syringes), management estimates that the company currently offers all major medical equipment types. The table below presents the key distributorships portfolio of the Lakah Group.

The largest supplier of medical equipment in Egypt

Lakah distributorship portfolio

Company represented	Origin	Started in
Oldelft (O)	The Netherlands	1976
Enraf Norius (EN)	The Netherlands	1976
Alvar Electronics (AN)	Alvar Electronics	1976
Subtil Crepieux (SC)	France	1978
ALM- Angenieux (ALM)	France	1978
Toshiba (TSB)	Japan	1985
Hewlett- Packard (HP)	USA	1987
Dornier Medical (DM)	Germany	1989
Olympus Optical Company (OLY)	Japan	1995
Draeger Medizintechnik (DMT)	Germany	1996
B. Braun (BB)	Germany	1998

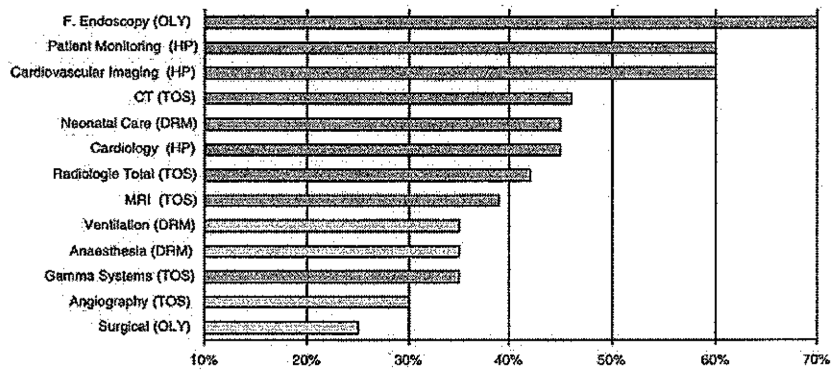
Source: Lakah Group, HSBC

...with leading market share in most segments

Lakah has clear leadership position in most product segments with market shares of over 50% in Flexible Endoscopy, Patient Monitoring Systems or Cardiovascular imaging systems. The products segments where Lakah is not yet the leading player (eg ventilation and anaesthesia) represent distributorships that have been established only recently (eg Draeger Medizintechnic).

Medical group

1998—Volume market share in key segments



Source: Lakah Group, HSBC Securities. Note: a bold bar indicates that Lakah Group is the leading competitor

Competition is mainly from inefficient public sector companies

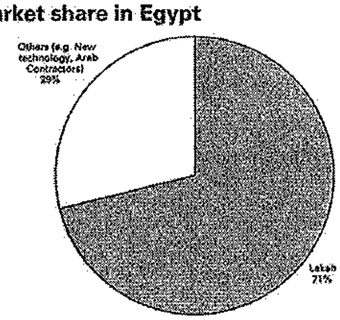
The analysis of competition in the radiology segments (the focus of TMSE) is illustrative of Lakah's competitive strength. In that segment its three major equipment competitors are Siemens, Philips and GE. Siemens and Philips have both been represented by the same public sector agent (El Gomhoria) with rather limited success. Their combined market share declined from 71% in 1986 to less than 20% in 1998. Philips cancelled its distributorship with El Gomhoria and attempts to build a relationship with another distributor. Finally, GE is represented, by a small private distributor, New Technology, but remains focused on a niche segment.

Key competitors in radiology have lost their leadership to Lakah

Turnkey projects (incl. construction): 71% market share

Medical turnkey projects are a fast growing segment. Medical turnkey projects can either include or exclude construction, but will always include the sale of medical equipment, the preparation of the environment, and the finishing of construction. The Lakah Group is the only company in the region able to provide the full service to its clients. Management estimates the Group controlled over 70% market share in turnkey medical projects.

Market share in Egypt



Source: Lakah Group, HSBC

Key turnkey projects in MENA

Turnkey projects in Egypt and MENA

40 Hospitals Egypt
7 Diagnostic and Therapy centers
2 Hospitals in MENA

> 10,000 beds
> 300 O.Rs
> 700 I.C.Us
> 550 Physiotherapy centers

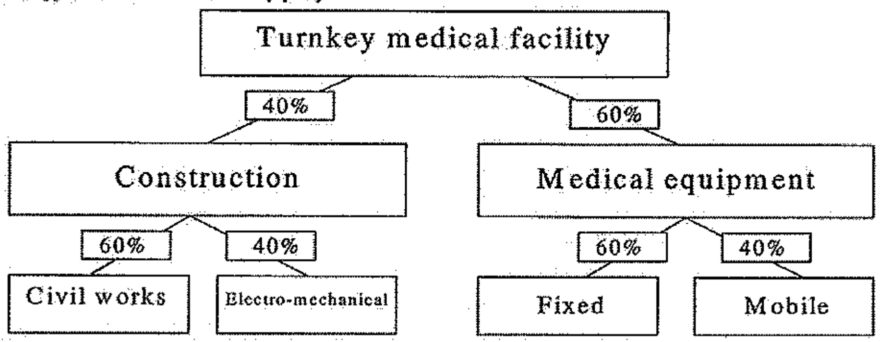
=> Estimated market share 71% in 1998

Source: Lakah Group, HSBC

Not for distribution in the USA, Canada or Japan

Medical group

A typical medical turnkey project



Source: Lakah Group, HSBC

Lakah Group is the only company in Egypt capable of offering an integrated turnkey project facility

Key success factors and entry barriers

The table below summarises the key success factors and the entry barriers in the various medical businesses of the Lakah Group.

Key success factors and entry barriers

	Entry barriers	Key success factors
Construction Turnkey Management	• **Class A licence** (2-3 years to get) • **Know how** • **Critical size**	• **Vertical integration** Lakah Group is the only fully integrated group allowing better pricing, high quality of execution and high margins
Medical equipment	• **Access to distributorships** • **Critical size** • Stock • Service • Finance	• **Product quality** Lakah Group represents high quality manufacturers • **Specialised sales team by application** • **Technical expertise** Lakah Group is the only company to offer highly trained Arab speaking application specialists. The application specialists and clinical staff are trained on a regular basis • **Service** Lakah Group offers over 90% up-time service • **Ability to finance medical equipment** Lakah is one of the only competitors able to offer leasing

Source: Lakah Group, HSBC

The Lakah Group's strong market position is built upon a thorough understanding of market needs and key success factors. The Group, given its critical size and the accumulation of know-how over the last 30 years, is protected by effective entry barriers.

Medical group

Very strong growth prospects

Three factors will drive future growth

Expansion in current business units
The Medical Group is set for a significant growth in the foreseeable future, fuelled by a combination of the following factors (see table) :

- Healthcare reform in Egypt will boost primary demand
- Potential to diversify the product range in the domestic market
- Regional expansion into other MENA markets

Growth drivers for companies in the Medical Group

Growth drivers	Medequip	TMSE	Quest	MCMC
Healthcare reform in Egypt				
• Construction of over 800 hospitals by 2002	Construction Turnkey		Finishing	Management
• Renovation of existing hospitals / centres	Construction		Finishing	
• Installation of new equipment/ upgrades	Material Leasing	>500 CTs by 2002 Leasing		
• Larger involvement of the private sector	Leasing	Leasing		Management
Expansion of domestic product range	Non-medical construction	Telemedicine	Expand customers base outside of pure medical clients	Full hospital management
		Imaging networks	Expand Acryline production Secure additional distribution agreements	Expand range to Endoscopy and Haemodyalisis centres
Geographic expansion	Expand to other MENA markets	Growth in Turkey, Jordan, Lebanon, Saudi Arabia		Expand medical imaging to other MENA markets

Source: Lakah Group, Ministry of Health, HSBC Securities

Two additional projects will be partly financed by the capital increase:

A dedicated leasing company
Currently the leasing activity is carried by both Medequip and TMSE. With the exponential growth of the private sector, management believes that a fully dedicated structure will be able to handle this activity better.

Entry in the disposable medical equipment
The Lakah Group believes that hospital needs for a centralised supplier of medical disposables have not yet been met in the MENA region. Today hospitals have to deal with hundreds of small suppliers with long delivery times and high prices. Lakah is in a good position to address that need as it has good contacts with hospital purchase managers and a strong reputation with international manufacturers. If successful this will provide the group with a stream of recurrent revenues to balance current project-driven cash flow streams.

Industrial group

- **Four companies positioned to address under-served domestic demand...**
- **...with little or no private sector competition...**
- **...offering Lakah a fixed assets base and stream of recurrent revenues**
- **Future growth fuelled by the boom in construction industry in Egypt**

Four different companies...

The industrial group is made up of four companies present in the steel business, lighting manufacturing, industrial transport and rental real estate investments. The Lakah Group started to invest in these companies back in 1995, but has been reaping the benefits since 1998 (see table).

Investments started in 1994/95, material revenues generated in 1998

Activities performed by the companies in the Industrial Group

Activities	Arab Steel	Amitrade	ICC	IIC
Company established in	1994	Dec 1995	Dec 1995	Various
Started operations in	End of 1997	Feb 1998	End 1998	various
Steel				
Billet manufacturing	X			
Billet and scrap trading		X		
Steel re-bars				X
Lighting manufacturing			X	
Industrial transport				X
Rental Real estate assets				
Detergents manufacturing plant				X
Commercial buildings				X
Top line revenues 1998 (LEm)	186.7	80.6	0.0	8.9
NPAT 1998 (LEm)	29.1	6.0	0.0	7.0

Source: Lakah Group, HSBC

...addressing unmet domestic demand with low competition

The following table summarises the market share controlled by the various companies in the Industrial Group as well as indications about the leading competitors.

Ability to identify unsatisfied demand

Competitive position

Key Activities	Share	Competition
Billet Manufacturing on the open market	100%	Arab Steel substitutes more expensive imports (1.3bn tons of billets imported per year at 5-10% premium). All other manufacturers are also RSB manufactures Another local venture is expected to come in line in 2000. Capacity of 0.6m tons.
Lighting manufacturing(1)	15/27%	Major competitor is a public sector company (Neasa), while a significant share of demand is imported.
Industrial transport	Dominant	Lakah is the sole company managing a fleet of new trucks. Traditional competition is from rail and independent truck drivers.
Detergent manufacturing	21%	Largest privately owned detergent plant in Egypt.

Source: Lakah Group, HSBC Securities. Note (1) : Expected market share in 1999 in GLS bulbs (15%) and Fluorescent lights (27%)

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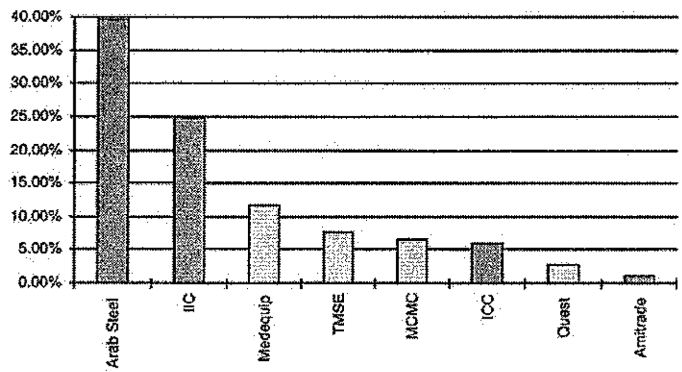
Industrial group

...and offering a fixed asset base and recurrent revenues

The industrial companies are more capital intensive businesses and accounted for over 70% of the group's long-term assets in 1998, enabling easier financial leverage for the group. In addition, these companies allow the group to balance the nature of group cash flow and revenues. In the medical group, revenues are project specific and tend to be more volatile than in the Industrial Group.

The Industrial Group accounts for over 70% of long term assets

1998—Long term assets (%)



Source: Lakah group, HSBC Securities. Note: % of non-consolidated long term assets

Future growth driven by boom of the construction industry

Lakah industrial businesses are largely dependent on the continued growth of the industrial and construction sectors. The construction and building materials markets have seen phenomenal growth in the past decade.

Growth fuelled by the boom of construction and building materials industries

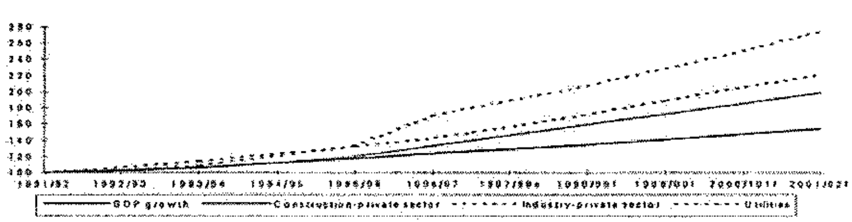
Building materials industries growth (LEm)

	1991/92	1992/93	1993/94	1994/95	1995/96
Building materials growth (%)	22.9	288.9	11.8	12.3	10.5
GDP growth rate (%)	1.9	2.5	3.9	4.7	4.3

Source: Ministry of the Economy, HSBC Securities

A host of mega projects, coupled with recently implemented structural changes allowing the private sector to play a greater role in these industries will continue to support the historical trends.

Growth projections for construction, infrastructure, and industry (1997=100)



Source: World Bank, HSBC Securities

Appendix I: Medical companies

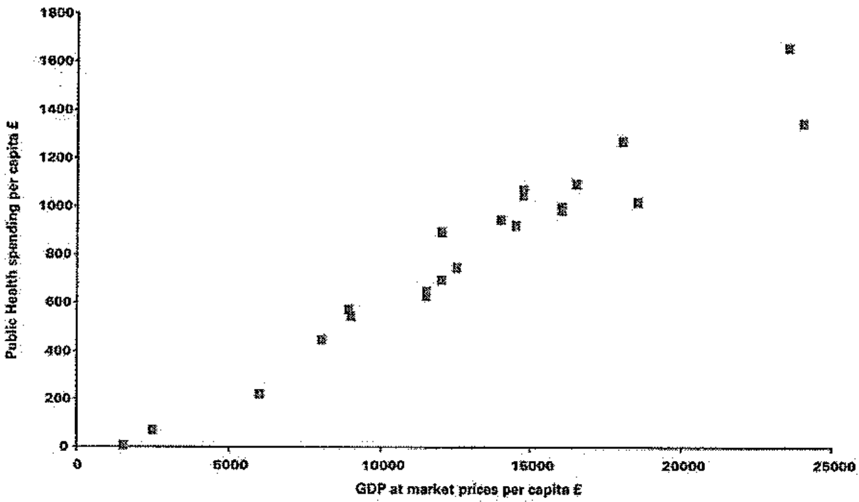
Healthcare in Egypt

Egypt still has an underdeveloped healthcare system

It is estimated that annual healthcare expenditure in Egypt amounts to less than 5% of GDP. Healthcare in Egypt has been suffering from several problems including sporadic coverage, funding shortfalls and service inconsistencies. Official statistics indicate that the vast majority of Egyptians do not have access to appropriate health services (only 10% of the population are covered by the national medical insurance scheme). In parallel, a fraction of the population, looking for more comprehensive treatment, travel abroad for private care.

Healthcare spending is correlated with GDP per capita

Public spending on healthcare and GDP per capita—international comparison



Source: HSBC Securities

Exponential growth is expected in healthcare spending

Private and public spending will drive exponential growth

We believe that GDP growth and stronger private demand for health services will be compounded in the future by a material increase in public spending supported by a recently adopted structural reform.

Healthcare a top governmental priority since 1998

The government's commitment to improve healthcare led to the introduction in 1998 of the Health Sector Reform Program (HSRP) with the objective to improve the quality, coverage and service provided by the government to its citizens.

Healthcare sector in Egypt—key milestones

Dates	Milestones
1952	Government pledges free healthcare for all citizens
1996	Government bans imports of pre-owned medical equipment
1998	Government introduces the Health Sector Reform Program (HSRP)

Source: Ministry of Health, Lakah Group, HSBC Securities

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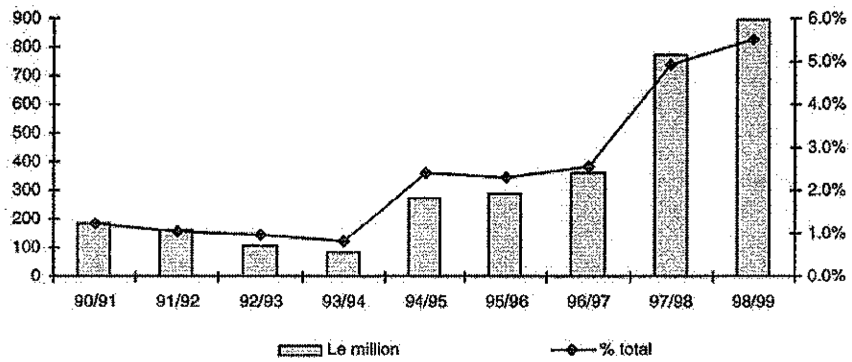
Appendix I: Medical companies

The program has been supported by an exponential growth in government spending in healthcare, multiplied by 2.5 in the last two years, accounting for the first time ever for over 5% of total government spending (see graph).

Investments of LE900m in 98/99, 5.5% of total investments

1990–1999: Investments in healthcare (LEm, %)



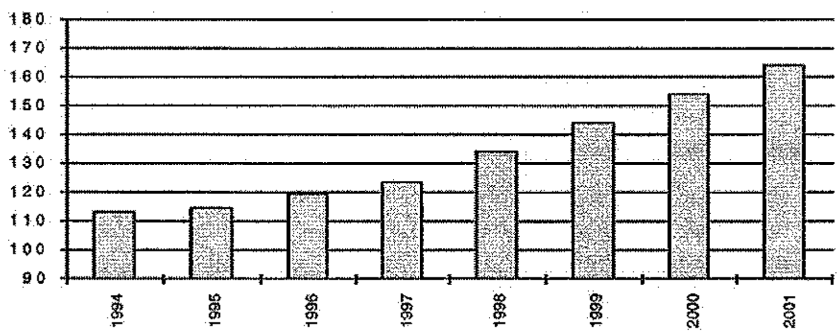
Source: Ministry of Finance, HSBC Securities

Healthcare infrastructure is set for a material expansion

While historically the number of hospital beds has been growing at 3% per year, the Ministry of Health 5-year plan projects an ambitious 6.5% CAGR by 2001 (see graph). Over 80% of the projected capacity increase is expected in rural areas, currently very poorly covered.

45,000 additional beds in five years, a 37% jump

1993–2001: Total number of hospital beds (000s)



Source: Ministry of Health, Lakah Group, HSBC Securities

In the same time, the government's plan calls for respectively 50% and 40% growth in the number of doctors and nurses (see table).

Most of the capacity increase in underdeveloped rural areas

1996-2001: Hospitals, doctors and nurses

	1996/97	2001/02	% growth
Public central hospitals	219	268	22.4%
Public rural hospitals	200	1,000	400.0%
Number of doctors	121,600	184,500	51.7%
Number of nurses	141,700	196,800	38.9%

Source: Ministry of Health, Lakah Group, HSBC Securities

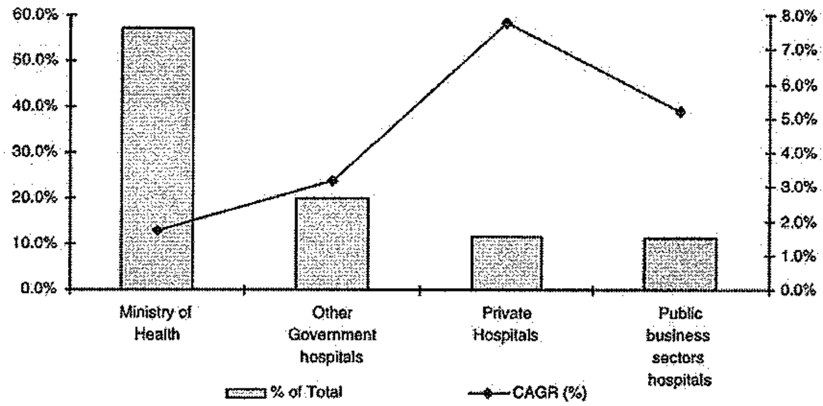
Appendix I: Medical companies

The private sector is in its infancy but is developing fast

The public sector hospitals, financed both by the Ministry of Health and the Ministry of Defence (military hospitals), are the key healthcare providers in Egypt. The private sector, although small, has registered faster growth in the last three years. This sector capitalises on GDP growth and addresses the need of large number of patients previously treated overseas by offering sophisticated diagnosis centres and well equipped hospitals. In addition, in 1999, the government has allowed four universities to establish their own hospitals.

Beds in private hospitals growing 2-3 times faster than in public hospitals

1997: Breakdown of hospital beds by type and 94–97 CAGR (%)



Source: Ministry of Health, Lakah Group, HSBC Securities

An array of opportunities for the Lakah group

Lakah's medical companies are well positioned to take advantage of the reform and growth of the healthcare industry in Egypt. More specifically:

- Construction and renovation of hospitals and medical centres
- Upgrading existing medical equipment and significant demand generated for new medical equipment for new hospitals (see table below showing Egypt lagging behind developed markets)
- The pace of the government's plans to expand medical facilities is considerably faster than its budgetary limitations. This will require a greater role for private investment and management

Egypt is under equipped in radiography equipment (Utilisation per capita—000s)

Modality	Japan	USA	Europe	Egypt
CT	13	27	48	349
MRI	54	68	148	1,400
ANGIO	70	76	154	1,600

Source: Toshiba, Lakah group, HSBC Securities

Appendix I: Medical companies

Medequip for Trading and Contracting

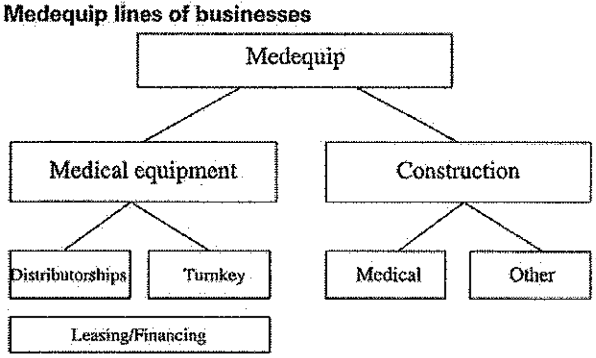
- **A unique, fully integrated offer in the medical industry**
- **Leadership built on strong competitive advantages**
- **Growth fuelled by market expansion and vertical integration**

A unique, fully integrated offer in the medical industry

A fully integrated...

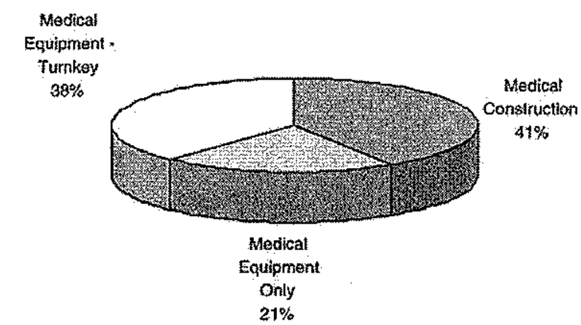
Established in 1960, Medequip is Lakah's largest healthcare services company. Initially, Medequip was only selling medical equipment, but progressively expanded its portfolio of activities to include turnkey projects, financing of medical equipment, and construction of hospitals and medical facilities. In 1998, sale of equipment accounted for only 21% of revenues, reflecting a successful diversification in the medical sector.

Medequip lines of businesses



Source: Lakah Group, HSBC

1998—Breakdown of revenues

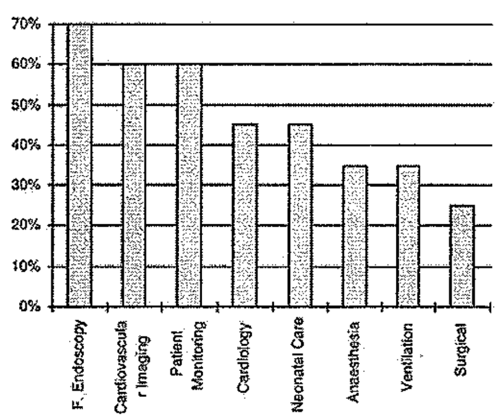


Source: Lakah Group, HSBC

...leader in Egypt

Medequip is incontestably the market leader in healthcare development in Egypt. The table below indicates its market share in selected medical applications and medical turnkey projects.

Market share in selected medical applications



Turnkey projects in Egypt and MENA

40 Hospitals Egypt
7 Diagnostic and Therapy centers
2 Hospitals in MENA

> 10,000 beds
> 300 O.Rs
> 700 I.C.Us
> 550 Physiotherapy centers

=> Estimated market share 71% in 1998